

1. REPORT SUMMARY

Legislation passed during the 2000 session of the Washington State Legislature directed the Office of Financial Management (OFM) to conduct a performance audit of the Washington State Ferries (WSF) Capital Improvement Program. The Legislature's intent was to determine whether the ferry system is acquiring, protecting, and using its resources economically and efficiently; the causes of inefficiencies and uneconomical practices; and whether the ferry system has complied with laws and regulation governing economy and efficiency. OFM initiated a competitive solicitation process for selecting a contractor and chose Talbot, Korvola & Warwick, LLP (TKW).

OBJECTIVES

To accomplish the stated intent of the project, OFM, in conjunction with TKW, developed the following objectives:

1. Capital Investments Model (Life Cycle Cost Model)

- a. Assess and validate the Ferries' decision-making process/model for capital investments.
- b. Determine/define preservation vs. maintenance.

2. Contracting/Bidding Process

- a. Assess how various state and federal procurement/bidding requirements affect acquiring and preserving assets.
- b. Determine:
 - compliance with applicable rules and regulations,
 - effectiveness,
 - fairness,
 - total costs as compared to other bidders, and
 - timeliness.
- c. Determine current procurement practices used by other entities.

BACKGROUND



The Ferry System

Washington State Ferries has carried commuters and vacationers to islands and peninsulas throughout Puget Sound for the past fifty years. Today, WSF has defined itself as an integral component of the state's transportation network and an efficient means of mass transit as well as one of Washington's largest tourist attractions.

Ferry service has been provided on the Puget Sound since the late 1800's. Although numerous ferryboat companies were in operation for many years, by 1929, only two operators, the Puget Sound Navigation Co. (PSNC) and the Kitsap County Transportation Company, were still in service. In 1935, labor disputes resulted in the closure of the Kitsap County Transportation Company. The Puget Sound Navigation Co. (PSNC), more commonly known as the Black Ball Line, controlled all major routes on Puget Sound. Although the company was a private enterprise, its rates and routes were regulated by the state.

In the late 1940's, labor conflicts ultimately forced the closure of the PSNC. Recognizing the need to reliably transport vehicles and passengers across Puget Sound, the State of Washington purchased the Puget Sound Navigation Co. including all terminals and ferries in 1951. Ferry service became the responsibility of the Washington Toll Bridge Authority. The Ferry System was jointly managed by the Washington Toll Bridge Authority (fare setting and financial control) and the State Highway Commission (operations). In 1977, the two agencies were combined, named the Washington State Ferries, and placed under the Washington State Department of Transportation.

In its first year of service, Washington State Ferries carried four million passengers. In 1999, the Ferries' 29 vessels - including 24 passenger/auto ferries and 5 passenger-only ferries - carried over 26.8 million people. WSF is currently the second largest mass transit system in Washington and carries more people annually than Amtrak. The Ferry System is currently a major mode of transportation for workers and tourists alike.

The Capital Improvement Program

The Washington State Transportation Commission has directed the WSF to protect the public's investments by keeping the Ferries' vessels and terminals in safe and sound operating condition as well as to expand the system to meet growing customer demands. The WSF's capital program has been developed to strategically plan for these changes through its focus on the preservation and new construction of vessels and terminals. These activities are requested through the State's budget process and are approved by the Legislature as capital acquisitions. This is in contrast to routine maintenance that is considered an on-going expense and funded through operational resources.

Washington State Ferries currently utilizes a life cycle concept to identify investments needed to assure its vessels and terminals are operating in a safe and sound condition. Two life cycle cost models are in place - one each for vessels and terminals. The vessel model is currently more complete and further developed than the terminal model. However, both are based on the same principles and should, when fully implemented, provide similar results.

Procurement

As a governmental agency, Washington State Ferries is subject to a multitude of laws, rules, and regulations governing its procurement practices. Title 47 Public Highways and Transportation of the Revised Code of Washington requires Washington State Ferries to contract in the manner of state highway construction. A competitive, formal sealed bid (Invitation for Bid) procedure is used as standard procedure for the construction, improvement, or repair of a ferry, ferry terminal, or other facility and for the procurement of supplies, materials, and equipment for the support of Washington State Ferries.

RESULTS

Our performance audit of the Capital Improvement Program has found that the Washington State Ferries' current decision-making process/model for capital investments is effective and sound. In addition, WSF has followed all statutes, rules, and regulations applicable to public procurement of preservation and construction services.

Washington State Ferries has taken a progressive approach in a number of areas concerning the identification and assessment of the investments needed to assure vessels and terminals are operating in a safe and sound condition. In addition, it has pursued various procurement methods to increase cost-effectiveness and timeliness.

Although our review of WSF's capital improvement program and procurement practices found that current operations are reasonable, we believe greater efficiency and effectiveness can be gained in some areas. Certain modifications to the current system will enhance productivity, provide for greater accountability, decrease costs, improve overall service delivery, and assist WSF in handling future needs.

The following are recommendations we believe will supplement the current operations of WSF and assist in obtaining the maximum value for expended resources:

Life Cycle Cost Model

Recommendation #1

We recommend Washington State Ferries use a modified version of the current SCR, weighting it by life cycle costs of systems and structures, to indicate an economic condition rating (ECR).

Procurement Practices

Recommendation #2

We recommend Washington State Ferries:

- Implement the use (or modify as appropriate) of its current checklist.
 - Assure contract coordinators maintain contract files.
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Recommendation #3

We recommend Washington State Ferries modify its current contracting procedures manual and update it as appropriate.

Alternative Procurement Models

Recommendation #4

We recommend Washington State Ferries examine and pursue alternative procurement approaches and statutory authorization regarding procurement of vessel maintenance and repair services.

Recommendation #5

We recommend Washington State Ferries seek legislative changes allowing the procurement of auto ferry equipment and systems through the RFP – Best Value process without first requesting an exception to the Invitation For Bid process.

Recommendation #6

We recommend Washington State Ferries seek legislative authority to allow the use of a modified Request For Proposal process to procure large ferry new construction.
